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THE NORTHERN PERSPECTIVE by Michael J. McManus

Quiet Tax Revolution Gains Momentum in Pennsylvania

The public's attention is naturally drawn to the Presidential race this fall. But there's an important issue that ought to surface in the election of governors and state legislators of every old industrial state, as it has in Missouri.

How would you like a new state law that would:

- Cut the taxes of the average homeowner, or rents of most apartments?

- Provide an incentive for rehabilitation, by cutting taxes on improvements?

- Increase the property taxes of land speculators, giving them an incentive to build on their land (creating jobs in your community) or sell it to someone who will?

- Spur needed new development in old communities with stagnant tax bases?

There are no more important state/local issues, in my opinion. But I'll wager that your state representative and his challenger, or your gubernatorial candidates never heard of what Pennsylvania calls "Incentive Taxation," or what Missouri Rep. Walter Muller calls "Site Value Taxation."

But take a look at "a quiet tax revolution" that is gaining so much momentum in Pennsylvania that it was praised by Fortune magazine Aug. 8, 1983 as one of the few forms of taxation "that promote development." And it is the subject of a new film called "A Tale of Five Cities — Tax Revolt Pennsylvania Style," that ought to be shown at any meeting where those running for state office have to face the voters.

But to understand the solution, you must first understand the problem. Here's how Dr. Steven Cord, an economics professor at Indiana University of Pennsylvania, and editor of a publication called "Incentive Taxation," explains the issue in the film:

"An owner who just sits on prime city land and keeps it idle is rewarded with low property taxes, and yet he can make big, speculative, unearned profits by selling it at some future time. What about the man who builds on his central city site? He puts up office buildings and housing, and he is penalized by high taxes year after year, not just once."

The solution is disarmingly simple. Five cities in Pennsylvania of varying size — Pittsburgh, New Castle, Scranton, Harrisburg, McKeesport — have increased property taxes on land, and cut taxes on buildings. And Washington, Pa. will implement such a law January 1.

If Washington had not passed its law, its residents would have paid 2.58 percent on both land and improvements.

But in January Washington will tax more than three times higher than its buildings: 6.056 percent on land vs. a 1.68 percent tax per dollar of building value.

What's the value of such a shift?

Some 81 percent of homeowners will have a lower property tax than they would have if there had not been a shift to a dual tax rate. Taxes will increase on owners of large quantities of underused land, such as parking lots in the downtown — often owned by speculators. That will give them an incentive to build on the land, or sell to someone who will.

This is not theory, but proven fact in the five cities whose laws are older.

Pittsburgh is a dramatic case study. The value of building permits from 1976-8 averaged \$82 million a year. In 1979, Pittsburgh made its land tax four times higher than its buildings. And that represented a tax increase, not just a tax shift. Building permits in 1979 jumped to \$108 million, nevertheless.

In 1980, the tax on land rose again to 5 times that of buildings. And a property tax deferment was granted of three years on commercial or industrial buildings and five years on new residential construction. The results were incredible.

New construction soared to \$297 million in 1980 and skyrocketed to a record-breaking \$563 million in 1981! The figure slipped back to \$201 million in 1982 and \$212 million in 1983. But that is still 2½ times the average of 1976-8.

"Our form of property tax modernization is a hidden treasure — like finding gold in our own backyard," says Congressman William J. Coyne of Pittsburgh who helped push through "incentive taxation," as he called it, while on the Pittsburgh City Council.

If his reform is so terrific, why can't it be seen in other states? Only Pennsylvania permits any locality to have a dual tax rate.

Missouri's House of Representatives passed enabling legislation proposed by Rep. Walter Muller by a 5-1 vote last spring, but there wasn't time for the Senate to act. Minnesota Rep. John Burger backs the concept in his state.

"Site Value Taxation is eminently fair," says Muller. "The more favorable your location is, the higher your tax. The person who improves his property won't have to pay a higher tax. Speculators will pay more while the average person's taxes are cut..."